

ANNUAL BUDGET OF

MOQHAKA LOCAL

MUNICIPALITY

2017/18 TO 2019/20

MEDIUM TERM REVENUE AND

EXPENDITURE FORECASTS

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Part 1 – Annual Budget

1.1 Council Resolutions

1. The Council of Moqhaka Local Municipality, acting in terms of section 16 of the Local Government: Municipal Financial Management Act (Act 56 of 2003) tables the budget for the 2017/18 MTREF.

1.2 Executive Summary

National Treasury's MFMA Circular No.85 and 86 were used to guide the compilation of the 2017/18 MTREF.

The compilation of the MTREF remains a huge challenge to balance the budget between the limited revenue resources available and the immense need to provide quality service delivery to our community. Tariff increases must be limited to be within the affordability levels of our community and must still promote economic growth to ensure financial sustainability

The main challenges experienced during the compilation of the 2017/18 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be a point where services will no-longer be affordable;
- Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies;
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2017/18 MTREF:

- The 2016/17 Adjustment Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2017/18 annual budget;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2017/18 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2016/17 MTREF

R thousand	Adjustment Budget 2016/17	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Total Operating Revenue	738 804	798 325	845 426	894 460
Total Operating Expenditure	714 889	784 819	831 123	879 328
(Surplus)/Deficit for the year	23 915	13 506	14 303	15 132
Total Capital Expenditure	72 094	79 712	58 061	69 406

Total operating revenue has grown by 8% for the 2017/18 financial year when compared to the 2016/17 Adjustments Budget. This is mainly due to the increase in the municipal equitable share, the increase in the refuse removal revenue which is aimed at improving for the service to be cost reflective as well as the increase in water revenue under which the municipality is currently stable in terms of supplying this service. For the two outer years, operational revenue will increase by 5.9% and 5.8% respectively.

Total operating expenditure for the 2017/18 financial year has been appropriated at R 784 million. When compared to the 2016/17 Adjustments Budget, operational expenditure has grown by 10% in the 2017/18 budget and by 5.9% and 5.8% for each of the respective outer years of the MTREF. The raised surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget amounts to R79 million for 2017/18 which results in a R7 million increase from 2016/17 Adjustment Budget. The capital budget will be funded from grant funding over MTREF with gazetted grants of R66 million as per the Division of Revenue bill 2017/18 and R 12 million from the municipal own funding.

NB: THE 2017/18 DORA WAS NOT PUBLISHED DURING THE PREPARATION OF THE 2017/18 DRAFT BUDGET. THE 2017/18 REVENUE BILL WAS USED IN THIS REGARD. THE DRAFT 2017/18 BUDGET WILL BE UPDATED WITH THE FINAL FIGURES AS SOON AS THE 2017/18 DORA IS UPDATED.

1.3 Operating Revenue Framework

For Moqhaka Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and high poverty & unemployment rate.

The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Efficient revenue management, which aims to ensure a 95% annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

The financial sustainability of the 2017/18 MTREF is largely dependent on the collection level of billed income. Provision is made for a **collection level of 85%**. To achieve this collection, Moqhaka Local Municipality is looking to implement more robust credit control measures.

In terms of Council's social commitment to assist the poorer communities in Moqhaka the supply of free basic services and social contributions to identified structures in Moqhaka remains a priority in order to ensure service delivery.

The following table is a summary of the 2017/18 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Revenue types			
R thousand	Adjustment Budget 2016/17	Annual Budget 2017/18	%
Property rates	67,069	71,161	6%
Service Charges: Electricity	305,759	324,410	6%
Service Charges: Water	96,247	105,872	10%
Service Charges: Sanitation	44,028	47,411	8%
Service Charges: Refuse	28,988	39,873	38%
Rental of Facilities	5,467	7,895	44%
Interest : External Investments	872	1,250	43%
Interest: Outstanding Debtors	16,112	17,079	6%
Fines	2,792	2,960	6%
Transfers Recognised operational	160,968	166,741	4%
Other Revenue	10,502	13,673	30%
Total Revenue (Excluding capital grants)	738,804	798,325	8%

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2017/18 financial year, revenue from rates and services charges totalled R589 million. Tariffs, rates and surcharges Increase for Municipal Services and other;

- Assessment Rates: 6%
- Electricity: 6%
- Water : 10%
- Sewer: 8%
- Refuse: 38%
- Other: 30%

The municipality is currently stable in terms of supply of water services to the community as opposed to the difficulties the municipality experienced during the 2015/16 financial year when there was a draught, therefore the water service revenue has increased by 10%.

Revenues for waste Management increase by 38%. Although this is way above the inflation rate, the tariff is based on the costs of delivering the service. This is a progressive increase in ensuring that the tariffs are cost reflective. Also taking into account the basic charge for the rehabilitation of the municipal landfill sites at the end of its useful lives.

For a cost reflective tariff, revenue for sewer has increased by 8% from the 2016/17 adjustment budget: the service is currently operating on a loss.

Other revenue consists of various items such as income received from building plan fees, connection fees, and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers totals R160 million in the 2016/17 financial year and the grants increase to R166 million by 2017/18. This is mainly because of the increase in the municipal equitable share that has increased by R6 million.

Table 3 Summary of revenue classified by municipal votes

Revenue by Municipal Vote				
Vote Description	2017/18 MTREF			
R thousand	Adjustment Budget 2016/17	Budget Year 2017/18	Budget year 2018/19	Budget Year 2019/20
Revenue by Vote				
Vote 1 - Councillors	84,376	89,523	94,805	100,304
Vote 2 - Office of the Municipal Manager	-	-	-	-
Vote 3 - Corporate Services	901	956	1,011	1,070
Vote 4 - Finance	74,152	78,675	83,238	88,066
Vote 5 - Technical Services	529,478	576,230	610,359	645,760
Vote 6 - Community and Emergency Services	42,290	44,870	47,473	50,226
Vote 7 - Local Economic Development and Planning	7,607	8,071	8,539	9,034
Total Revenue by Vote	738,804	798,325	845,426	894,460

Table 4 Operating Transfers and Grant Receipts
FS201 Moqhaka - Supporting Table SA18 Transfers and grant receipts

Description R thousand	2017/18 MTREF			
	Adjustment Budget 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
RECEIPTS:				
Operating Transfers and Grants				
National Government:	160,968	166,741	187,411	202,651
Local Government Equitable Share	158,519	164,092	185,011	200,251
Finance Management	1,810	2,145	2,400	2,400
LG Seta	639	504	-	-
		-	-	-
		-	-	-
Provincial Government:	-	-	-	-
District Municipality:	-	-	-	-
<i>Fezile Dabi District Municipality</i>				
Other grant providers:	-		-	-
<i>[insert description]</i>				
Total Operating Transfers and Grants	160,968	166,741	187,411	202,651

Table 5: Capital Grants
Capital expenditure of Transfers and Grants

Description R thousand	2017/18 MTREF			
	Adjustment Budget 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Municipal Infrastructure Grant (MIG)	38,349	40,840	43,061	45,406
Regional Bulk Infrastructure	2,000	-	-	-
EPWP	1,000	1,000	-	-
DOE	7,000	5,000	5,000	9,000
Water Services Infrastructure Grant	-	20,000	10,000	15,000
Total Capital Grants	48,349	66,840	58,061	69,406

The Capital grants for the 2017/18 financial year have increased from R48 million in the adjustment budget to R 66 million, this is mainly because the MIG has increased by R 2 million and the introduction of the Water Services Infrastructure Grant of R 20 million.

1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2017/18 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

Table 6 Summary of operating expenditure by municipal votes

Expenditure by Municipal Vote				
Vote Description	Adjustment Budget 2016/17	2017/18 MTREF		
		Budget Year 2017/18	Budget year 2018/19	Budget Year 2019/20
Expenditure by Vote to be appropriated				
Vote 1 - Councillors	72,216	76,621	81,142	85,848
Vote 2 - Office of the municipal manager	12,884	13,670	14,477	15,316
Vote 3 - Corporate Services	26,623	28,247	29,914	31,649
Vote 4 - Finance	33,906	35,974	38,096	40,306
Vote 5 - Technical Services	420,305	472,265	500,129	529,136
Vote 6 - Community and Emergency Services	124,736	132,345	140,153	148,282
Vote 7 - Local Economic Development and Planning	24,219	25,696	27,213	28,791
Total Expenditure by Vote	714,889	784,819	831,123	879,328

The following table is a high level summary of the 2017/18 budget and MTREF (classified per main type of operating expenditure):

Table 7: Summary of operating expenditure by standard classification item

OPERATING EXPENSES			
Description R thousand	Adjustment Budget 2016/17	Annual Budget 2017/18	%
Employee Related Cost	209,811	245,772	17%
Remuneration of Councillors	17,195	18,831	10%
Bulk Purchases	228,540	233,732	2%
Contracted Services	28,623	29,727	4%
Repairs and Maintenance	67,334	77,303	15%
Depreciation	8,712	9,473	9%
Finance charges	2,354	2,498	6%
Contribution to bad debts	5,898	6,258	6%
General Expenses	146,422	161,225	10%
Total Expenditure	714,889	784,819	10%

Remarks

The budgeted allocation for employee related costs for the 2017/18 financial year totals R245 million, which equates to 31% of the total operating expenditure. Based on the multi-year collective SALGBC agreement for the period 01 July 2015 to 30 June 2018, salary increases have been factored into this budget at a percentage increase of 5.1% (Average CPI) plus 1% for the 2016/17 financial year and an additional 0.5% to cover the salary notches increases.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases as approved by NERSA (National Energy Regulator of South Africa) have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years. Due to organisational constraints and the minimal increases in revenues, the municipality has increased the depreciation amount **only** in terms of the inflation rates guided by the National Treasury budget circulars, on the basis of the item being a non-cash item.

The provision of debt impairment was determined based on an annual collection rate of 85%. While this expenditure is considered to be a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). The municipality is currently servicing the DBSA loan.

Repairs and Maintenance is attributable to the state of the municipal infrastructure assets. The repairs and maintenance for the 2017/18 Budget amounts to 10% of the overall expenditure budget. Budget circular 55 requires the municipality to budget 8% of its PPE for repairs and maintenance, however, the municipality could not implement the circular as it would be impossible to budget 200 million for this line item with the current status of affairs.

1.6 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

FS201 Moqhaka - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding				
Vote Description	2015/16 MTREF			
R thousand	Adjustment Budget 2016/17	Budget Year 2017/18	Budget Year 2018/19	Budget Year 2019/20
Capital expenditure - Vote				
Vote 1 - Councillors	1,458	915	-	-
Vote 2 - Office of the Municipal Manager	1,556	-	-	-
Vote 3 - Corporate Services	2,042	2,345	-	-
Vote 4 - Finance	303	545	-	-
Vote 5 - Technical Services	60,460	68,938	58,061	69,406
Vote 6 - Community and Emergency Services	6,267	5,051	-	-
Vote 7 -LED	7	1,918	-	-
	72,094	79,712	58,061	69,406
Capital Expenditure - Standard				
<i>Governance and administration</i>	3,902	5,723	-	-
Executive and council	1,556	915	-	-
Budget and treasury office	303	545	-	-
Corporate services	2,042	4,263	-	-
<i>Community and public safety</i>	6,251	5,051	-	-
Community and social services	6,251	5,051	-	-
Sport and recreation	-	-	-	-
<i>Economic and environmental services</i>	36,249	19,424	43,061	45,406
Planning and development	-	-	-	-
Road transport	36,249	19,424	43,061	45,406
Environmental protection	-	-	-	-
<i>Trading services</i>	24,474	49,514	15,000	24,000
Electricity	7,877	5,661	5,000	9,000
Water	10,109	20,987	10,000	15,000
Waste water management	6,473	19,912	-	-
Waste management	16	2,954	-	-
<i>Other</i>	-	-	-	-
<i>PMU Administration</i>	1,218	2,042	-	-
Total Capital Expenditure - Standard	72,094	79,712	58,061	69,406

Funded by:				
National Government	48,349	66,840	58,061	69,406
Internally generated funds	23,745	12,872	—	—
Total Capital Funding	72,094	79,712	58,061	69,406

The following table is a summary of the own funding on capital expenditure:

CAPITAL BUDGET (Own Funds)								
R thousand	Political Offices	Municipal Manager	Finance Services	Corporate Services	Technical Services	Communit y & Social Services	LED	TOTAL
Fleet, Heavy Machinery and Equipment	284,500	30,000	245,100	115,000	1,498,005	2,507,366	1918000	6,597,971
Office Furniture	500,000	100,000						600,000
NETWORKING				1,730,000				1,730,000
HARDWARE				250,000				250,000
TELEPHONE SYSTE				250,000				250,000
UNFORSEEN CAPIT			300,000					300,000
GUARD HOUSES					300,000			300,000
SUBSTATIOJ UPGR					300,000			300,000
ID CARD SYSTEM						100,000		100,000
COMPLETE COMPUT						150,000		150,000
FIRE ARMS X 10						100,000		100,000
MOBILE TOILETS						150,000		150,000
2 ROADMARKING M						240,000		240,000
HI-PRESSURE LIF						220,000		220,000
FIRE ENGINE						1,500,000		1,500,000
	784,500	130,000	545,100	2,345,000	2,098,005	4,967,366	1,918,000	12,787,971

For 2017/18 an amount of R79 million has been appropriated for the development of infrastructure. In the outer years this amount totals R58 million and R 69 million respectively for each of the financial years. Highest allocation is towards water infrastructure at R20 million followed by roads at R19 million and then waste water at R19 million.

1.7 Cash flow Statement

FS201 Moghaka - Table A7 Budget Cash Flows				
Description		2017/18 MEDIUM TERM REVENUE & EXPENDITURE FRAMEWORK		
R thousand	Adjustment Budget 2016/17	Budget Year 2017/18	Budget Year +18/19	Budget Year +19/20
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates, penalties & collection charges	67,069	71,161	75,288	79,730
Service charges	403,769	500,417	529,441	560,678
Other revenue	15,947	18,332	19,395	20,540
Government - operating	160,968	166,741	176,412	186,820
Government - capital	48,349	66,840	70,717	74,889
Interest	14,567	15,580	16,484	17,456
Dividends	-			
Payments				
Suppliers and employees	(633,440)	(762,576)	(806,805)	(854,407)
Finance charges	(2,354)	(2,498)	(2,643)	(2,799)
Transfers and Grants	-			
NET CASH FROM/(USED) OPERATING ACTIVITIES	74,875	73,997	78,289	82,908
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	0			
Decrease (increase) in non-current debtors	0			
Decrease (increase) other non-current receivables	0			
Decrease (increase) in non-current investments	0			
Payments				
Capital assets	(72,094)	(79,712)	(58,061)	(69,406)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(72,094)	(79,712)	(58,061)	(69,406)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans	-			
Borrowing long term/refinancing	-			
Increase (decrease) in consumer deposits	-			
Payments				
Repayment of borrowing	(3,200)	(3,200)	(3,386)	(3,585)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(3,200)	(3,200)	(3,386)	(3,585)
NET INCREASE/ (DECREASE) IN CASH HELD	(419)	(8,915)	16,842	9,917
Cash/cash equivalents at the year begin:	11,846	11,427	2,512	19,354
Cash/cash equivalents at the year end:	11,427	2,512	19,354	29,270

The cash flow has been projected on the collection rate of 85% on revenues except for the operating and capital grants. The municipality has also made provision to meet 100% of its obligations to the extent where possible however 97% percent for other expenditure has been provisioned.